

**Tennessee Higher Education Commission**

**For the Years Ended  
June 30, 1998, and June 30, 1997**

***Arthur A. Hayes, Jr., CPA***  
Director

***Charles K. Bridges, CPA***  
Assistant Director

***Shirley A. Henry, CPA***  
Audit Manager

***Nancy Bernstein, CPA, CISA***  
In-Charge Auditor

***Donna Flatt***  
Staff Auditor



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

July 30, 1999

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

Dr. Richard G. Rhoda, Executive Director  
Tennessee Higher Education Commission  
Suite 1900 Parkway Towers  
404 James Robertson Parkway  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Higher Education Commission for the years ended June 30, 1998, and June 30, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Tennessee Higher Education Commission's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Tennessee Higher Education Commission is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The commission's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the commission's internal controls to the Tennessee Higher Education Commission's management in a separate letter.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/klm  
99/086

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Higher Education Commission**  
For the Years Ended June 30, 1998, and June 30, 1997

---

## AUDIT SCOPE

We have audited the Tennessee Higher Education Commission for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of financial related issues, the commission's application of the funding formula for Tennessee's public institutions of higher education, computer access controls, and personnel. The audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDINGS

### **Security Access Controls Need Improvement**

The commission did not promptly cancel terminated employees' access to the state's computer information systems or the state's mainframe computer. In addition, the commission could not always provide security maintenance forms for information system users (page 5).

### **No Written Personnel Policies and Procedures**

The commission has not adopted written personnel policies and procedures, and management does not evaluate its employees regularly through performance evaluations (page 7).

---

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

---

**Audit Report**  
**Tennessee Higher Education Commission**  
**For the Years Ended June 30, 1998, and June 30, 1997**

---

**TABLE OF CONTENTS**

---

	<u>Page</u>
<b>INTRODUCTION</b>	1
Post-Audit Authority	1
Background	1
<b>AUDIT SCOPE</b>	2
<b>OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS</b>	2
Financial Related Issues	2
Application of Funding Formula for Tennessee's Public Institutions of Higher Education	4
Computer Access Controls	4
Finding 1 – Security access controls need improvement	5
Personnel	6
Finding 2 – The commission does not have written personnel policies and procedures	7
<b>PRIOR AUDIT FINDINGS</b>	8
<b>OBSERVATIONS AND COMMENTS</b>	8
Title VI of the Civil Rights Act of 1964	8
<b>APPENDIX</b>	8
Divisions and Allotment Codes	8
Funding Sources – Fiscal Year Ended June 30, 1998	9

---

## TABLE OF CONTENTS (CONT.)

---

	<u>Page</u>
Commission Expenditures by Allotment Code and Division – Fiscal Year Ended June 30, 1998	9
Education Trust Fund Expenditures – Fiscal Year Ended June 30, 1998	9
Funding Sources – Fiscal Year Ended June 30, 1997	10
Commission Expenditures by Allotment Code and Division – Fiscal Year Ended June 30, 1997	10
Education Trust Fund Expenditures – Fiscal Year Ended June 30, 1997	10

# **Tennessee Higher Education Commission For the Years Ended June 30, 1998, and June 30, 1997**

---

## **INTRODUCTION**

---

### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Tennessee Higher Education Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The Tennessee Higher Education Commission was created in 1967 by the General Assembly. The purpose of the coordinating board is to create cooperation and unity among the state institutions of higher education. The commission coordinates two systems of higher education: the University of Tennessee campuses, governed by the University of Tennessee Board of Trustees; and the state universities, community colleges, technical institutes, and technology centers, governed by the Tennessee Board of Regents.

The commission’s mission is to carry out the statutory responsibilities through a board consisting of nine lay members representing Tennessee’s congressional districts and appointed by the Governor, as well as the State Comptroller, State Treasurer, Secretary of State, Executive Director of the Board of Education, and two student members as ex-officio members.

The statutory responsibilities mandate that the commission develop a master plan for Tennessee postsecondary education, public and private; develop formulae and recommend the operating and capital budgets for public higher education; review and approve new academic programs; provide data and information to the public, institutions, legislature, and state government; and license and regulate private vocational postsecondary institutions operating within the state.

The underlying principles of the policies developed by the commission are equity, excellence, accessibility, and accountability.

An organizational chart of the commission is on the following page.

---

## **AUDIT SCOPE**

---

We have audited the Tennessee Higher Education Commission for the period July 1, 1996, through June 30, 1998. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of financial related issues, the commission's application of the funding formula for Tennessee's public institutions of higher education, computer access controls, and personnel. The audit was conducted in accordance with generally accepted government auditing standards.

---

## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

---

### **FINANCIAL RELATED ISSUES**

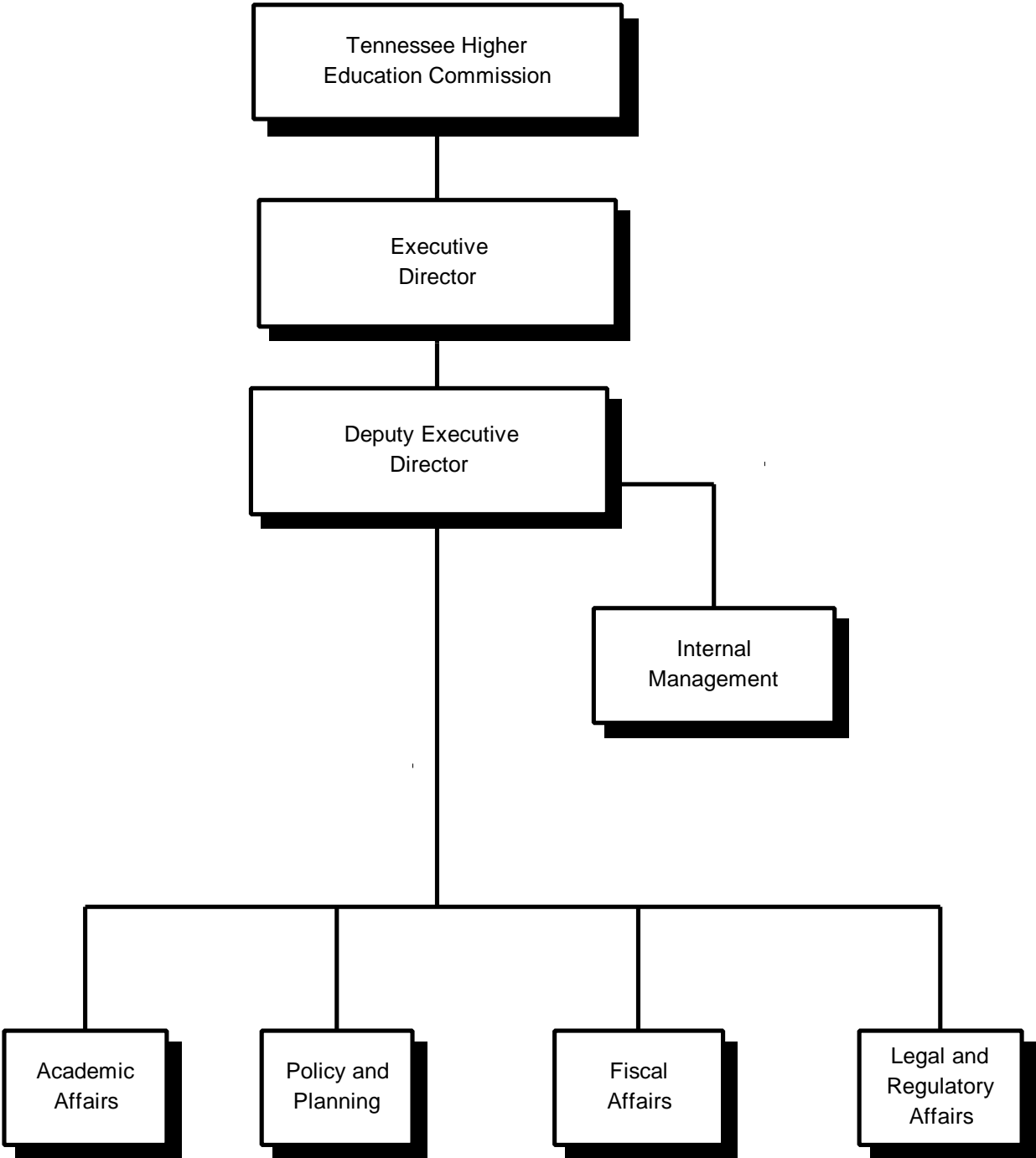
Our objectives in reviewing financial related issues of the Tennessee Higher Education Commission were to determine the types of departmental revenues the commission collects, the types of expenditures it makes, and whether the commission

- recorded its departmental revenues properly,
- had any highly unusual revenue collections,
- recorded its expenditures properly,
- had any highly unusual expenditures, and
- recorded its transactions in the Tuition Guaranty Fund properly.

We obtained an extract of some of the commission's revenue and expenditure transactions from the State of Tennessee Accounting and Reporting System history tapes. We analyzed these transactions for unusual activity. We then obtained documentation for particular transactions that appeared unusual and reviewed them further. Management stated that the Tuition Guaranty Fund did not pay any claims during the audit period so no testwork was performed in this area. We had no findings concerning the financial related issues; however, certain minor weaknesses came to our attention, which have been reported to the commission's management in a separate letter.



TENNESSEE HIGHER EDUCATION COMMISSION



---

## **APPLICATION OF FUNDING FORMULA FOR TENNESSEE'S PUBLIC INSTITUTIONS OF HIGHER EDUCATION**

Our objectives in reviewing the funding formula used by the Tennessee Higher Education Commission to distribute public funds to the state's institutions of higher education focused on

- gaining an understanding of the formula and
- tracing the approved formula through the funding process to determine if it was working as intended.

We interviewed key commission personnel to gain an understanding of the budget process for the allocation of funds to the institutions within the commission's purview; to ascertain the objectives of the formula and how it is defined, revised, and used; and to determine if the formula met the objectives. We also reviewed documentation for application of the approved formula through the funding process. We had no findings related to the application of the funding formula.

---

## **COMPUTER ACCESS CONTROLS**

As part of our general review of controls, we reviewed computer access controls for the commission. Our objectives were to determine whether

- access was initiated by a written request from management,
- security maintenance forms were properly approved,
- written requests specified the type of access to be given,
- written requests specified which information the user should have access to,
- the user had the type of access requested,
- the user's access appeared reasonable,
- all levels of access were removed upon employee separation, and
- access to employee electronic mail accounts was removed upon employee separation.

We reviewed employees' access to determine whether it was appropriately approved and established. We also reviewed the commission's procedures concerning removal of access upon employee separation. Furthermore, we reviewed the commission's controls over the state's electronic mail system in regard to terminated employees. The finding that resulted from our audit of the commission's computer access controls follows.

## **1. Security access controls need improvement**

### **Finding**

The commission did not promptly cancel terminated employees' access to the state's computer information systems or the state's mainframe computer. The state uses the Resource Access Control Facility (RACF) access system to control access to the state's mainframe computer. The RACF access is the first level of security, and the information system access controls are the second level of control used by the state to prevent unauthorized users from accessing the system or its data. In addition, for some users, the commission was unable to provide the auditors with the security maintenance forms, which document the approval for the user's access to the system.

#### **Terminated Employees' Information Systems Access**

Access to the state's information systems was not always revoked immediately upon an employee's separation. The commission had previously terminated employees who still had access to the following systems in August 1998:

- State of Tennessee Accounting and Reporting System (STARS) - Three of ten individuals listed as having access to STARS (30%) were no longer commission employees. These individuals' employment terminated between July and November 1997.
- State Employee Information System (SEIS) - One of three individuals listed as having access to SEIS (33%) was no longer a commission employee. This individual left the commission in November 1997.
- Property of the State of Tennessee (POST) - One of four individuals listed as having access to POST (25%) left the commission in June 1995.

Although a user cannot obtain access to these information systems without first passing through RACF security, the commission's former RACF Security Administrator stated he did not remove separated employees' RACF access immediately. Failure to remove user access to information systems immediately upon separation creates a deficiency in the commission's internal controls that are designed to protect the state's information resources.

#### **Terminated Employees' Electronic Mail Access**

Passwords to access the state's electronic mail system, GroupWise, have not been changed immediately upon employee separation. The commission's GroupWise users may access their electronic mail accounts from any personal computer using the Internet. Therefore, separated employees could still use their state electronic mail accounts after separation if management did not change their password and could still have access to information being transmitted through their electronic mail accounts. Their unauthorized access and use would constitute a misuse of state resources.

## Security Maintenance Forms – POST

Neither the commission nor the Department of General Services could provide security maintenance forms for two of four POST users (50%), including the terminated employee mentioned above. Good internal controls prohibit access to information systems without a properly approved, written request from commission management. Without this approval, unauthorized access to the state's information systems may occur.

### **Recommendation**

The Executive Director should establish an information systems security policy which provides for

- Immediate removal of RACF access upon employee separation to prevent unauthorized access to the state's mainframe computer;
- Immediate removal of access to the state's information systems including STARS, SEIS, and POST upon employee separation;
- Immediate change of GroupWise password upon employee separation to prevent inappropriate access to the system; and
- Denial of access to the state's information systems without properly approved, written request forms.

### **Management's Comment**

We concur with the finding and recommendation. As part of the check-out process for all terminating employees, the personnel officer verifies that all access to any of the state's or agency's computer information systems including RACF, STARS, SEIS, POST, GroupWise or any other internal systems has been terminated. Written security maintenance forms will be maintained on file for all user access to the systems.

---

## **PERSONNEL**

As part of our general review of controls, we made inquiries regarding personnel practices. Our objectives were to determine whether the commission

- had adequate personnel policies and procedures in place, and
- evaluated employees at least annually through performance evaluations.

We requested a copy of the commission's personnel policies and procedures manual to determine the policy concerning performance evaluations. The finding that resulted from our audit of the commission's personnel procedures follows.

## **2. The commission does not have written personnel policies and procedures**

### **Finding**

The commission has not adopted written personnel policies and procedures, and management does not evaluate its employees regularly through performance evaluations. An entity's personnel policies and procedures normally cover the following: the employment process; promotions; raises; longevity or other annual bonuses; performance evaluations; attendance and leave including annual, sick, compensatory, holiday, civil, military, and maternity, as well as leave without pay; alternative work schedules; inclement weather; affirmative action; employee benefits including retirement and insurance options; disciplinary procedures; grievance procedures; professional development policies; sexual harassment policies, drug-free workplace policies; and an Americans with Disabilities Act policy. Without written personnel policies and procedures, neither management nor commission employees have established guidance or criteria on how to address personnel issues. In addition, the lack of written policies and procedures means there is no assurance all employees will be treated equally.

Job performance evaluations are used to promote employee development, enhance employee productivity, serve as a basis for sound personnel decisions, and provide a permanent record of the performance of major job duties and responsibilities for employees. Most employees have their job performance evaluated at least annually. Without regular employee performance evaluations, management has no method to measure job performance or to properly consider individuals for merit increases or promotions.

### **Recommendation**

The Executive Director should develop and implement written personnel policies and procedures including the use of annual performance evaluations.

### **Management's Comment**

We concur with the finding and recommendation. The commission follows the State of Tennessee Department of Personnel policies and procedures, which include certain exemptions for executive service agencies such as the Tennessee Higher Education Commission. The commission will document in writing that the agency follows the state Department of Personnel policies and procedures.

---

## PRIOR AUDIT FINDINGS

---

There were no findings in the prior audit report.

---

## OBSERVATIONS AND COMMENTS

---

### TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1998, the Tennessee Higher Education Commission filed its compliance report and implementation plan on July 14, 1998; and for the year ended June 30, 1997, on June 24, 1997.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor has not designated a new monitoring agency for the Executive Branch.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

---

## APPENDIX

---

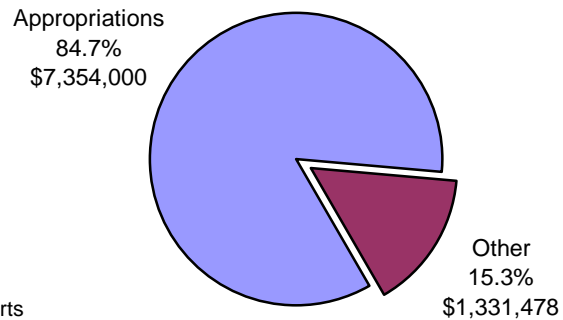
### DIVISIONS AND ALLOTMENT CODES

Tennessee Higher Education Commission divisions and allotment codes:

332.01	Higher Education Commission
332.02	Contract Educational Program
332.09	THEC Grants

### Tennessee Higher Education Commission Funding Sources

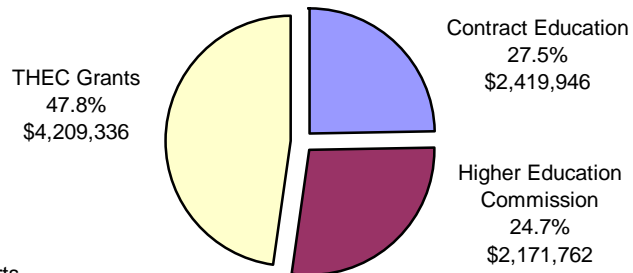
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: STARS Reports

### Tennessee Higher Education Commission Expenditures by Allotment Code and Division

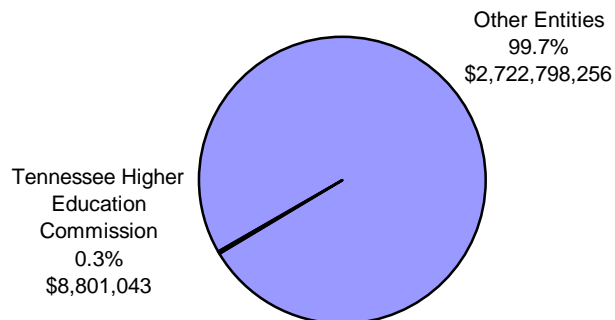
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: STARS Reports

### Education Trust Fund Expenditures

Fiscal Year Ended June 30, 1998 (Unaudited)

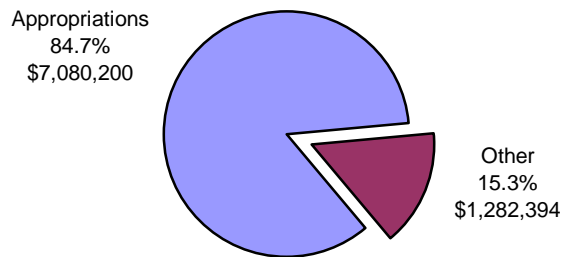


Source: STARS Reports

Note: These charts do not include flow-through money for the Centers of Excellence (\$17 million) or Campus Centers of Emphasis (\$1.2 million).

### Tennessee Higher Education Commission Funding Sources

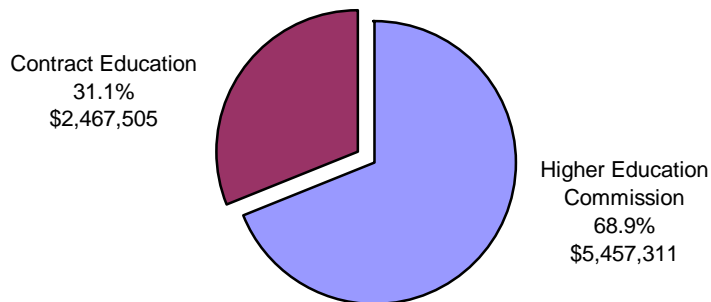
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: STARS Reports

### Tennessee Higher Education Commission Expenditures by Allotment Code and Division

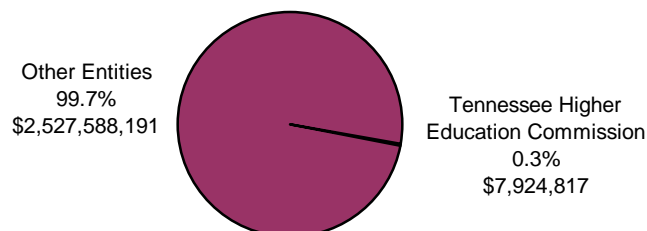
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: STARS Reports

### Education Trust Fund Expenditures

Fiscal Year Ended June 30, 1997 (Unaudited)



Source: STARS Reports

Note: These charts do not include flow-through money for the Centers of Excellence (\$17.4 million) or Campus Centers of Emphasis (\$1.3 million).